

NSC DETERMINATION NO. 3

REPORT BY THE NATIONAL SECURITY COUNCIL

on

TRADE BETWEEN NORWAY AND THE SOVIET BLOC
IN THE LIGHT OF SECTION 1302 OF THE THIRD
SUPPLEMENTAL APPROPRIATION ACT, 1951

I. Background

1. Section 1302 of the Third Supplemental Appropriation Act, 1951 (Public Law 45, approved June 2, 1951), directs that no economic or financial assistance shall be provided to any foreign country which, after 15 days following the enactment of the Act, exports or knowingly permits the export of certain named categories of commodities to the Soviet Bloc during any period in which the Armed Forces of the United States are actively engaged in hostilities in carrying out a decision of the Security Council of the United Nations. In order to be eligible for economic or financial assistance each country must certify that after the prescribed period it has not exported or knowingly permitted the export of the prohibited items to the Soviet Bloc.

2. The Act requires that the Secretary of Defense certify to the Economic Cooperation Administrator a list of specified articles or commodities. The list in question was certified on June 5, 1951.

3. The Act authorizes the National Security Council to make exceptions to the several provisions of Section 1302. Such exceptions are to be made only upon an official determination by the National Security Council that they are in the security interest of the United States.

4. Norway received approximately \$400 million under the ECA program through the fiscal year 1951. The foreign aid program for fiscal year 1952, currently before the Congress contemplates the continuance of economic and financial aid to Norway in support of its defense program.

5. Norway continues to trade with the Soviet Bloc because of the importance of the goods which it obtains from the East. Exports to the Soviet Bloc (\$26 million in 1950) consisted principally of fish and fish products which are not easily saleable in the West but which are important to the stability of a principal industry. With very few exceptions, Norwegian exports to the Bloc consisted of goods of little or no strategic significance. The export of aluminum to the Soviet Bloc in 1950 totaled some 5000 tons and was the principal bargaining item which enabled Norway to obtain needed

AD/R
16

imports from the East. Exports to China were valued in 1950 at less than \$900,000 and consisted primarily of pulp and paper.

6. In return for its exports Norway received from the Soviet Bloc imports (valued at \$39 million in 1950) consisting of a wide variety of commodities including a number, such as iron and steel, non-ferrous metals, and machinery, of the kind referred to in Section 1302. Of particular importance among the imports were a number the lack of which would cause serious difficulties to the Norwegian economy. About 45 percent of Norway's imports of bread grains and 25 percent of its total coal consumption were obtained from the Soviet Bloc. 20 percent of its manganese ore and 40 percent of its phosphate rock (for fertilizer production) were obtained from the U.S.S.R. Seventy percent of its potash fertilizer was obtained from Eastern Germany.

7. Norway is exporting to the Soviet Bloc materials certified by the Secretary of Defense as falling within the categories set forth in Section 1302.

II. Problem

8. In the circumstances therefore the National Security Council has been faced with the choice of deciding that all economic and financial assistance to Norway should be discontinued or of deciding that aid to Norway should be continued in the security interest of the United States by granting an exception to the provisions of Section 1302.

III. Discussion

9. The maintenance of an independent, democratic Norway, staunchly aligned with the United States is in our security interest. The purpose of economic and financial assistance to Norway is to further Norway's will and ability to resist Communism and to participate effectively in the North Atlantic Pact and the United Nations system of collective security. This purpose is important to us not only in order to achieve maximum cooperation for the defense of the free world, but also because Norway occupies a highly strategic geographic position and possesses the third largest Merchant Marine in the world.

10. Norway abandoned its traditional neutrality despite Soviet warnings and its exposed geographic position. It has participated vigorously in all mutual defense undertakings and has sincerely supported the cooperative efforts undertaken by the United States and other NAT countries. This support is also indicated by the greatly increased defense program which has been undertaken by Norway in accordance with the objectives of the North Atlantic Treaty.

11. Discontinuation of assistance would seriously hamper and delay Norway's defense effort. It would increase Norway's dependence upon Soviet Bloc supplies and might even necessitate increased exports to the Soviet Bloc. The abrupt change in the existing mutually cooperative relationship which would be implicit in the discontinuation of assistance, might seriously affect Norway's confidence in the United States and its objectives, a confidence which has been successfully established as a result of post-war United States policies and programs.

12. Experience in negotiation of trade agreements between Norway and the Soviet Bloc countries clearly indicates that the continued receipt of important supplies such as bread grains, coal, manganese and fertilizer, and indeed, the continuance of all trade relations between Norway and the Soviet Bloc depends upon Norway's willingness to continue the export to the Soviet Bloc of the aluminum and other such products, to a limited extent. Severance of Norway's trade with the Soviet Bloc would cause serious economic difficulties, particularly in respect to the fishing industry as suggested above. It would create a situation also in which Norway would be forced to turn to the free world for coal and grain which, in turn, would require scarce shipping. Provision of products from the free world, moreover, would necessitate the provision of substantially increased dollar aid. In addition the free world would lose the manganese now being received. Even with such adjustments the Norwegian economy would be impaired.

IV. Determination

13. The National Security Council, in view of the considerations in Section III, determines that it would be to the security interest of the United States to make an exception from the provisions of Section 1302 for Norway.

V. Instructions

14. The National Security Council directs its Special Committee on East-West Trade to:

a. Continue its examination of trade between Norway and the Soviet Bloc;

b. Continue to seek additional measures, consistent with over-all U. S. national security interests, for diminishing the flow of strategic commodities from Norway to the Soviet Bloc with a view to making appropriate recommendations to the National Security Council.

15. The National Security Council directs its Executive Secretary to declassify this Council document. This declassified document will be submitted as a National Security Council report to the Committees in Congress named in Section 1302 together with the trade analysis called for by that Section.

Supplement to NSC Determination Number 3 Under Section 1302
of the Third Supplemental Appropriation Act of 1951

NORWAY

Facts on Trade Relations with the Soviet Bloc

Exports. Norway's trade with the Soviet Bloc has traditionally constituted only a small percentage of its total trade. Norway's exports to the Soviet Bloc in 1950 totaled \$26,353,700 or about 7 percent of its total exports. Preliminary figures for the first two months of 1951 show exports to the Soviet Bloc valued at \$4,700,000, which was about on the same level as the comparable period in 1950. Assuming that trade with the Bloc is continuing in the same pattern as in recent months, Norwegian exports include some items of the type certified by the Secretary of Defense.

Norway's principal exports to the Soviet Bloc in 1950 were fish and fish products (primarily salted and frozen herring) and marine oils and fats (whale and herring oils and fats). These marine products made up almost 65 percent of total exports to the Soviet Bloc. The balance of the exports included rayon staple fiber, iron ore, pyrites, ferro-alloys, and aluminum. Shipping services to the Bloc are of considerable importance, although no figures are available.

Norwegian exports of commodities of the type subject to U.S. export licensing were largely composed of raw or semi-processed materials. Goods in this category totaled an estimated \$6,000,000, which represented 25 percent of Norway's total exports to the Soviet Bloc. Principal items shipped in 1950 included aluminum (5,000 tons), iron pyrites (113,000 tons), ferro-alloys (\$450,000), grinding wheels and discs (\$200,000), pig iron (3,000 tons), and iron ore (85,000 tons). Very minor quantities of carbides were shipped comprising 75 tons of silicon carbide and 600 tons of calcium carbide.

Imports. Norway's imports from the Soviet Bloc in 1950 totaled \$39,439,000 or about 6 percent of total Norwegian imports. Preliminary figures for the first two months of 1951 show an import of \$6,500,000, which represents a 15 percent over the

112248

- 2 -

corresponding period in 1950.

Foodstuffs and raw materials make up the bulk of Norway's imports from the Soviet Bloc. During 1950 major items include 145,000 tons of bread grains (71,000 tons wheat and 74,000 tons of rye), 514,000 tons of coal, and 31,000 tons of manganese ore. Other commodities of importance include machinery, fertilizers, and iron and steel products. Imports of commodities of the type subject to U.S. export licensing totaled approximately \$6,153,000.

Methods of Trading. Norway's trade with Poland, Czechoslovakia and Hungary is governed by bi-lateral trade agreements negotiated in 1950. The agreement with Czechoslovakia expires September 30, 1951, with Hungary January 31, 1952, and with Poland June 30, 1951. Except for the three year wheat agreement expiring December 31, 1951 (the exchange of grain for aluminum and herring), trade with the Soviet Union proceeded on a barter basis in 1950 due to failure to sign a yearly commodity agreement as provided for in the over-all trade and payments agreement of 1946. Trade with Rumania, Bulgaria and Albania has been negligible and is not governed by any agreements. Exports to China in 1950 totaled less than \$800,000 and were largely composed of paper products.

Both grain and coal, the most important imports from the Soviet Bloc, are imported into Norway by State Monopolies.

Controls Over Trade. Norwegian trade controls have been in effect since 1946 and were made necessary by the severe deficit in the balance of payments. All imports and exports have been subject to licensing control and exchange controls. This system has continued to date modified only by the automatic granting of licenses where the OEEC free lists applied. At present, all trade with the Soviet Bloc is subject to licensing and financial controls.

The licensing authorities using existing powers can prevent the export of any item for security reasons.

Goods which are to pass through the territory of Norway may be re-exported without an export license if it is clearly stated by their conveying documents that they are going straight to a foreign destination, and the re-export must take place within 90 days. The goods may not be transformed in any way during their stay in the country. The customs applies a control to that effect.

Analysis of Relative Economic Advantage from Trade with the Bloc

An examination of Norway's exports to the Bloc reveals that Norway is able to dispose of large amounts of surplus consumer goods such as salted herring and marine oils and fats for which she receives, in turn, articles of importance to her economy. About 80 percent of Norway's export of salted and frozen herring is shipped to the East. Since the fishing industry provides a livelihood for an important segment of the population, any serious disruption of the herring industry would have a damaging effect on the entire economy.

A comparison of Norway's imports from and exports to the Bloc of commodities of the type subject to U.S. export licensing indicates that Norway received a total of goods approximately equal in value to what she shipped. In addition to the commodities referred to in the comparison above, Norway received from the Bloc coal and grain valued at \$18,143,000. Thus the cost of the grain and coal was covered primarily by the sale of fish and marine oils and fats, an exchange greatly to the advantage of the Norwegian economy.

In total, Norway's exports to the Bloc are small and with the exception of herring pose no serious problem in marketing elsewhere. However, by the export of a relatively large proportion of consumer-type goods, Norway receives in turn certain commodities the lack of which would cause serious difficulties to the

162248

Norwegian economy. In this connection grain and coal are the most noteworthy. 42 percent of Norway's bread grain needs are supplied by the East and 25 percent of its coal requirements. About 20 percent of its manganese ore and about 40 percent of its phosphate rock (for fertilizer production) is obtained from the U.S.S.R. Norway gets from Eastern Germany about 70 percent of its potash fertilizer, and of major importance to the Norwegian paper industry is the 2,000 tons of glauber salt (17 percent total requirement) gotten from Eastern Germany.

On balance, Norway's trade with the Bloc provides the West with a clear net advantage in terms of the exchange of fish, oils and fats, and a relatively small percentage of strategic goods for materials important to the maintenance of the Norwegian economy.

Practical Alternatives to Trade with the Bloc. Norway in the present world situation could in all likelihood find alternate markets for most products now shipped to the Bloc. Herring remains an important exception. There is little chance of expanding markets in the West although removal of present import restrictions on Norwegian herring by certain West European countries might alleviate the situation to some slight extent. It would not be possible to utilize the excess herring in the oil and meal processing industries because their capacity is already fully taken up.

In finding alternative sources of supply for coal, grain and manganese ore two difficulties are present. Assuming that these items could be provided by the West, the long hauls necessary would require considerable shipping space. Ships now used in the Baltic coal trade are not of the type which could be transferred to the transatlantic haul. The purchases would also require dollar expenditures which would add to the already existing imbalance in the Norwegian balance of payments.

162248

Since the conclusion of World War II Norway has been experiencing large deficits in her balance of payments. Such deficits have chiefly been met by the use of ECA funds. Any shift to the U.S. as a source of supply for grain and coal would necessitate a sizeable increase in dollar aid. Only a small proportion of the goods now sold to the Bloc could be sold for dollars (principally aluminum and ferro-alloys).

102248